

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED

APR 6 11 42 AM '00

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS KAY TO INTERROGATORY OF
THE ASSOCIATION OF PRIORITY MAIL USERS, INC.
(APMU/USPS-T23-1)

The United States Postal Service hereby provides the response of witness Kay to the following interrogatory of the Association of Priority Mail Users, Inc.:
APMU/USPS-T23-1, filed on March 23, 2000.

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992 Fax -5402
April 6, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KAY TO
INTERROGATORY OF ASSOCIATION OF PRIORITY MAIL USERS**

APMU/USPS-T23-1. Please refer to witness Kashani's response to MPA/USPS-T14-2, both at pages 8-10 of the narrative response as well as Attachment I (Mail Processing Adjustment for Redistribution of Rehabilitation Program), pages I-2. Witness Kashani explains that the costs associated with the Rehabilitation program "were erroneously distributed to Priority Mail in mail processing in FY 2000. This miscalculation overstates Priority Mail costs by approximately \$46 million in that year..." Witness Kashani then makes what he calls a "Priority Mail Correction," reducing Priority Mail costs by \$46.350 million. Please provide a similar correction to the incremental costs of Priority Mail.

RESPONSE

Attachment 1 to this response estimates the effect of witness Kashani's correction on incremental cost estimates for all classes of mail, including Priority Mail. The correction is estimated to reduce Priority Mail incremental cost by \$48.509 million in Test Year 2001 (After Rates). Column 1 of Attachment 1 shows the BY 1998 volume variable cost for mail processing, as shown in USPS-LR-I-150, folder IC Model/R00-1, file ICSummary.xls, tab 'Independent VVC', column 7. Column 2 of Attachment 1 shows the BY 1998 volume-related incremental cost for mail processing, as shown in USPS-LR-I-150, folder IC Model/R00-1, file ICSummary.xls, tab 'IC Independent', column 4, minus product specific costs show on tab 'Prod Spec', column 1. Column 3 of Attachment 1 shows total Test Year 2001 (Before Rates) incremental cost, from Table 1A of my testimony. Column 4 of Attachment 1 shows total Test Year 2001 (After Rates) incremental cost, also from Table 1A of my testimony. Columns 5 and 6 are the estimated dollar impact on Test Year 2001 (Before Rates) and Test Year 2001 (After Rates) volume variable cost, from USPS LR-I-198. Column 7 calculates the estimated dollar impact on Test Year 2001 Before Rates

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KAY TO
INTERROGATORY OF ASSOCIATION OF PRIORITY MAIL USERS**

incremental cost. This is calculated as the ratio of Base Year 1998 volume-related incremental cost divided by Base Year 1998 volume variable cost times the Test Year 2001 (Before Rates) dollar impact on volume variable cost from column 5. Column 8 calculates the estimated dollar impact on Test Year 2001 (After Rates) incremental cost, calculated in a similar fashion. Columns 9 and 10 show what total incremental cost for Test Year 2001 (Before Rates) and Test Year 2001 (After Rates) would be if these estimates were incorporated into the analysis.

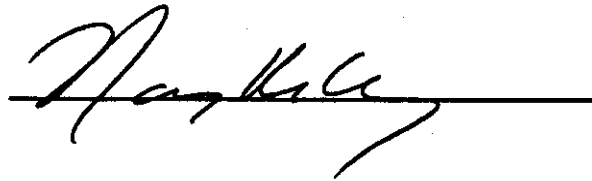
RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KAY TO INTERROGATORY OF ASSOCIATION OF PRIORITY MAIL USERS

ATTACHMENT 1. IMPACT OF CORRECTING DISTRIBUTION OF REHABILITATION PROGRAM ON TEST YEAR INCREMENTAL COST

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	BY 1998 MAIL PROCESSING VOLUME VARIABLE COST	BY 1998 MAIL PROCESSING VOLUME-RELATED INCREMENTAL COST	TY 2001 (BR) INCREMENTAL COST	TY 2001 (AR) INCREMENTAL COST	TY 2001 (BR) DOLLAR IMPACT OF CORRECTING DISTRIBUTION FOR REHABILITATION PROGRAM	TY 2001 (AR) DOLLAR IMPACT OF CORRECTING DISTRIBUTION FOR REHABILITATION PROGRAM	TY 2001 (BR) DOLLAR IMPACT ON INCREMENTAL COST OF CORRECTION DISTRIBUTION FOR REHABILITATION PROGRAM	TY 2001 (AR) DOLLAR IMPACT ON INCREMENTAL COST OF CORRECTION DISTRIBUTION FOR REHABILITATION PROGRAM	TY 2001 (BR) TOTAL INCREMENTAL COST WITH CORRECTED DISTRIBUTION OF REHABILITATION PROGRAM	TY 2001 (AR) TOTAL INCREMENTAL COST WITH CORRECTED DISTRIBUTION OF REHABILITATION PROGRAM
	COLUMN NUMBER CALCULATIONS REFERENCE	(1) LR-4-150, ICSummary.xls, Independent VVC C7	(2) LR-4-150, ICSummary.xls, IC Prod Spec C1	(3) USPS-T-23, Table 1A, C4	(4) USPS-T-23, Table 1A, C6	(5) LR-4-198, C12	(6) LR-4-198, C13	(7) =C5 * (C2/C1)	(8) =C6 * (C2/C1)	(9) =C3 + C7	(10) =C4 + C8
1	FIRST-CLASS MAIL:										
2	SINGLE-PIECE LETTERS	5,073,478	5,262,085	14,280,484	14,179,317	16,758	16,856	17,379	17,278	14,277,843	14,186,593
3	PRESORT LETTERS	1,257,908	1,263,988	5,218,914	5,188,914	4,905	4,880	4,929	4,923	5,223,843	5,193,837
4	SINGLE-PIECE CARDS	188,617	188,051	567,908	552,719	620	603	621	604	568,529	553,324
5	PRESORT CARDS	38,358	38,369	174,731	170,800	144	140	144	141	174,875	170,941
6	TOTAL FIRST-CLASS	6,558,422	6,863,032	20,933,880	20,860,680	22,425	22,299	23,535	23,403	20,957,414	20,824,882
7	PRIORITY MAIL	648,963	648,887	3,643,485	3,441,926	(51,575)	(48,439)	(51,849)	(48,509)	3,591,636	3,393,416
8	EXPRESS MAIL	93,400	93,407	719,220	723,701	357	360	357	360	719,577	724,061
9	MAIL GRAMS	172	172	1,017	1,026	0	0	0	0	1,018	1,027
10	PERIODICALS:										
11	IN-COUNTY	13,182	13,182	82,823	82,086	42	42	42	42	82,865	82,140
12	OUTSIDE COUNTY:										
13	REGULAR	578,403	578,345	2,050,321	2,000,331	2,040	1,980	2,047	1,987	2,052,368	2,002,328
14	NON-PROFIT	98,154	98,201	372,301	360,717	288	314	288	314	372,600	361,032
15	CLASSROOM	5,203	5,202	14,321	14,071	16	16	16	16	14,337	14,087
16	TOTAL PERIODICALS	683,942	683,677	2,528,670	2,467,245	2,388	2,362	2,407	2,371	2,532,277	2,468,616
17	STANDARD MAIL (A):										
18	SINGLE-PIECE RATE	91,258	91,278	-	-	-	-	-	-	-	-
19	COMMERCIAL STANDARD:										
20	ENHANCED CARR RTE	292,588	292,911	2,675,104	2,617,128	991	989	992	970	2,676,096	2,618,097
21	REGULAR	2,048,188	2,058,628	7,242,821	6,937,525	8,441	8,100	8,521	8,177	7,251,343	6,945,702
22	TOTAL COMMERCIAL	2,332,757	2,357,578	10,136,885	9,767,080	9,432	9,089	9,532	9,165	10,148,138	9,776,258
23	AGGREGATE NONPROFIT:										
24	NONPROFIT ENH CARR RTE	44,895	44,880	212,580	208,788	185	182	185	182	212,766	208,981
25	NONPROFIT	412,448	413,235	1,338,791	1,334,443	1,524	1,513	1,527	1,516	1,341,318	1,335,959
26	TOTAL AGGREG NONPROFIT	457,423	458,345	1,554,011	1,544,778	1,699	1,676	1,693	1,679	1,555,704	1,546,467
27	TOTAL STANDARD (A)	2,881,438	2,919,280	11,612,270	11,431,673	11,121	10,745	11,267	10,865	11,823,537	11,442,550
28	STANDARD MAIL (B):										
29	PARCELS ZONE RATE	241,341	241,580	1,105,888	1,078,738	985	955	987	956	1,108,953	1,080,885
30	BOUND PRINTED MATTER	125,381	125,401	488,691	482,380	485	471	487	472	489,177	482,862
31	SPECIAL STANDARD	80,888	80,889	305,677	302,020	310	306	310	306	305,987	302,326
32	LIBRARY MAIL	11,533	11,534	48,355	47,504	42	41	42	41	48,397	47,545
33	TOTAL STANDARD (B)	458,101	458,844	1,975,657	1,930,237	1,803	1,774	1,808	1,777	1,977,463	1,932,614
34	US POSTAL SERVICE	130,512	130,554	40,322	40,388	420	420	420	420	420	420
35	FREE MAIL	14,912	14,914	40,322	40,388	55	55	55	55	40,376	40,423
36	INTERNATIONAL MAIL	261,520	261,582	1,575,168	1,531,016	942	914	943	914	1,576,112	1,531,831
37	SPECIAL SERVICES:										
38	REGISTRY	37,008	37,008	88,381	85,307	100	96	100	96	88,481	85,403
39	CERTIFIED	32,044	32,044	588,185	588,689	122	113	122	113	588,287	588,782
40	INSURANCE	1,784	1,785	78,306	76,780	7	7	7	7	78,313	76,787
41	COO	557	558	15,129	15,016	2	2	2	2	15,131	15,017
42	SPECIAL DELIVERY	-	-	1	1	-	-	-	-	1	1
43	MONEY ORDERS	3,540	3,655	224,831	217,464	14	14	15	14	224,845	217,476
44	STAMPED CARDS	-	-	3,444	3,444	-	-	-	-	3,444	3,444
45	STAMPED ENVELOPES	117	122	12,549	12,551	0	0	0	0	12,549	12,551
46	SPECIAL HANDLING	485	485	2,492	2,490	2	2	2	2	2,493	2,491
47	POST OFFICE BOX	2,753	2,887	588,677	580,449	11	10	11	11	588,688	580,460
48	OTHER	41,338	41,339	138,788	138,975	157	158	157	158	138,956	139,133
49	TOTAL SPECIAL SERVICES	119,578	119,842	1,786,467	1,734,743	415	401	416	402	1,788,902	1,735,145

DECLARATION

I, Nancy R. Kay, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Nancy Kay", is written over a solid horizontal line.

Dated: 4-5-00

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Eric P. Koetting", written over a horizontal line.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992 Fax -5402
April 6, 2000